REPORT OF EXAMINATION
OF THE

CENTURY-NATIONAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed October 27, 2005

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Los Angeles, California
September 16, 2005

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV-Western
Commissioner of Insurance and Securities
Montana Department of Insurance
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

CENTURY-NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 12200 Sylvan Street, North Hollywood, CA 91606. The Company's statutory home office is located at 16600 Sherman Way, Van Nuys, California 91406.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. This examination was conducted pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

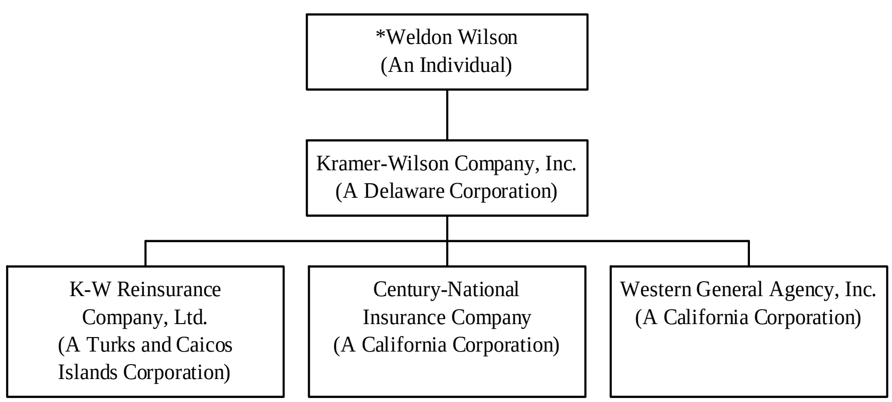
COMPANY HISTORY

The Company was incorporated under the laws of California on June 23, 1955, and commenced business December 21, 1956, for the purpose of conducting property and casualty insurance. Paid-up capital of $5 million consists of 500 shares of $10,000 par value common stock.

In December 2003, the Company paid a dividend of $5.475 million to Kramer-Wilson Company, Inc. in the form of real estate. The dividend payment was approved by the California Department of Insurance.

MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which Weldon Wilson is the ultimate controlling person. The following organizational chart depicts the interrelationship of the Company within the holding company system:



*Weldon Wilson's ownership is either as an individual or on behalf of his children.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

Name and Residence	Principal Business Affiliation
Weldon Wilson Sherman Oaks, California	President and Chairman of the Board Century-National Insurance Company and Kramer-Wilson Company, Inc
Kevin Wilson Westlake Village, California	Vice President Century-National Insurance Company and Kramer-Wilson Company, Inc
Marie Balicki Winnetka, California	Secretary Century-National Insurance Company

Principal Officers

Name	Title
Weldon Wilson	President
Judith Osborn	Treasurer
Marie Balicki	Secretary
Kevin Wilson	Vice President

Management and Agency Agreements

Kramer-Wilson Company, Inc. (K-W): Since 1972, the Company has maintained an underwriting management agreement with its parent, K-W. The agreement was approved initially by the California Department of Insurance (CDI) in 1972 and again in 1986 with an addendum to change the compensation from a percentage of earned premiums to a cost reimbursement basis. The agreement provides for K-W to produce business and provide management, labor, space, equipment, and services required to enable the Company to engage in the insurance business. The Company retains responsibility for the payment of premium taxes, losses, loss adjustment expenses, investment expenses, and income taxes. The agreement commits K-W to pay to the Company all premiums written, regardless of whether they have been collected from the insured or from the producing agent, subagent, broker or solicitor. Premiums are payable to the Company within 75 days after the last day of the month in which they are written. The agreement empowers K-W to, among other things, appoint and terminate agents, subagents, solicitors and brokers, and perform all underwriting functions and adjust claims. Under the terms of the agreement, the Company must reimburse K-W for all costs incurred in the performance of such services.

Western General Agency, Inc. (WGA): WGA is a wholly-owned subsidiary of K-W and produces business exclusively for the Company. In 1992 WGA was added as a party to the management agreement between the Company and K-W.

Data/Protection Incorporated: In 1981, the Company entered into an agency agreement with Data/Protection Incorporated (DPI), which is also a wholly-owned subsidiary of K-W. Under the terms of the agreement, DPI may receive and accept a proposal for all lines of insurance which the Company is authorized to write. DPI pays for all agency expenses incidental to daily operations. DPI remits to the Company all premiums written, net of cancellations, within 25 days after the last day of the month written. Effective December 31, 2004, DPI was merged into K-W.

The following chart depicts commissions and expenses paid to the above affiliated entities for the examination period:

Year	Commissions and Expenses Paid to K-W	Commissions and Expenses Paid to WGA	Commissions and Expenses Paid to DPI
2002	$32,114,501	$28,401,493	$3,339,302
2003	$34,039,160	$26,160,728	$4,177,811
2004	$36,010,094	$31,008,753	$6,446,219
Total	$102,163,755	$85,570,974	$13,963,332

Tax Allocation Agreement: The Company and K-W file a consolidated federal income tax return under the terms of a Tax Allocation Agreement. The Company's tax liability, under the terms of this agreement, is the same as if it had filed on a separate stand-alone basis.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed as a multiple line fire and casualty insurer in the following 38 states:

Alaska	Louisiana	Oklahoma
Arizona	Maryland	Oregon
Arkansas	Minnesota	Pennsylvania
California	Mississippi	South Carolina
Colorado	Missouri	South Dakota
Delaware	Montana	Tennessee
Florida	Nebraska	Texas
Georgia	Nevada	Utah
Idaho	New Jersey	Virginia
Illinois	New Mexico	Washington
Indiana	North Carolina	Wisconsin
Iowa	North Dakota	Wyoming
Kentucky	Ohio	

In 2004 the Company had direct written premiums of $238,904,399. The following reflects the four largest premium producing states:

State	Volume	% of Total
California	$208,575,172	87.3
Nevada	15,682,101	6.6
Arizona	10,360,638	4.3
Illinois	3,050,753	1.3

The Company writes both commercial and personal lines insurance coverage throughout the western region of the United States. The Company specializes in providing collateral protection to financial institutions with large portfolios and commercial auto and homeowners policies to consumers. The major lines written during 2004 were homeowners multiple peril (47%), commercial auto liability (25%) and auto physical damage (15%).

The Company employs a variety of distribution systems, including independent agents, brokers, and lender affiliated agents. Homeowners, fire and earthquake policies are distributed through lender affiliated agents while commercial auto liability and physical damage coverage are marketed through brokers. In addition, direct mail response is used to solicit mobile home insurance, commercial multi-peril on apartment owner's risks and personal auto coverage.

REINSURANCE

Assumed

There is no assumed business other than the Company's mandatory participation in the California Commercial Automobile Insurance Procedure Pool.

Ceded

The Company ceded homeowners, mobile home, dwelling fire, earthquake, and commercial property business on an excess-of-loss basis ($500,000 in excess of $500,000) through June 2003. This per risk excess loss treaty was not renewed at July 2003.

The following is a schedule of the principal ceded reinsurance contracts in-force as of the examination date:

Type of Contract	Reinsurer's Name	Company's Retention	Coverage
Underlying Property Catastrophe Excess of Loss	K-W Reinsurance Company, Ltd. (affiliate) (100%)	5% of each excess net loss for which claim is made under this contract	95% of $4 million in excess of $4 million for each and every loss occurrence not to exceed 95% of $8 million in the aggregate during the term of this contract
Master Property Catastrophe Excess of Loss	Munich Reinsurance Company	$8 million	$18 million in excess of $8 million for each and every loss occurrence not to exceed $54 million in the aggregate during the term of this contract

Type of Contract	Reinsurer's Name	Company's Retention	Coverage
Third Property Catastrophe Excess of Loss	Underwriters at Lloyds (69.0%), PXRE Reinsurance Company (7.5%), QBE Reinsurance Corp (12.5%), other reinsurers (11.0%)	5% of each excess net loss for which claim is made under this contract	95% of $5 million in excess of $26 million for each and every loss occurrence not to exceed 95% of $10 million in the aggregate during the term of this contract
Fourth Property Catastrophe Excess of Loss	Hannover Re (8%), Platinum Underwriters (8.5%), Underwriters at Lloyds (64.44%), Aspen Insurance (5.81%), Folksamerica Reinsurance (5.0%), other reinsurers (8.25%)	5% of each excess net loss for which claim is made under this contract	95% of $35 million in excess of $31 million for each and every loss occurrence not to exceed 95% of $70 million in the aggregate during the term of this contract
Fifth Property Catastrophe Excess of Loss	Aspen Insurance (20.0%), Underwriters at Lloyds (13.0%), QBE Reinsurance Corp (10.0%), Hannover Re (5.0%), other reinsurers (2.0%)	2.5% of each excess net loss for which claim is made under this contract	47.5% of $24 million in excess of $66 million for each and every loss occurrence not to exceed 47.5% of $48 million in the aggregate during the term of this contract

Effective June 30, 2003, the Company entered into a 40% quota-share treaty with K-W Reinsurance Company, Ltd., an affiliated company, for the auto physical damage line of business.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 353,818,951	$	$ 353,818,951	
Stocks:				
Common stocks	16,888,582		16,888,582	
Preferred stocks	45,058,833		45,058,833	
Cash and short-term investments	40,907,096		40,907,096	
Other invested assets	4,640,413		4,640,413	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	2,145,169	483,289	1,661,880	
Premiums, agents' balances and installments booked but deferred and not yet due	11,262,136	88,405	11,173,731	
Reinsurance recoverable on loss payments	2,451,372		2,451,372	
Federal income tax recoverable	2,043,468		2,043,468	
Net deferred tax asset	23,928,134	13,453,887	10,474,247	
Interest, dividends, and real estate income due and	4,799,544		4,799,544	
Equities and deposits in pools and associations	1,197,845		1,197,845	
Total assets	$ 509,141,543	$ 14,025,581	$ 495,115,962	

Liabilities, Surplus and Other Funds

Losses			$ 138,808,489	(1)
Loss adjustment expenses			47,086,987	(1)
Commissions payable, contingent commission and similar charges			8,807,280	
Other expenses			1,052,548	
Taxes, licenses and fees			646,298	(2)
Unearned premiums			120,756,225	
Ceded reinsurance premiums payable			2,190,615	
Funds held by company under reinsurance treaties			1,686,564	
Amounts withheld or retained by company for account of others			303,326	
Provision for reinsurance			315,706	
Drafts outstanding			11,864,936	
Payable for securities			406,738	
Aggregate write-ins for liabilities			28,164,545	(3)
Total liabilities			362,090,257	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		24,135,420		
Unassigned funds (surplus)		103,890,285		
Surplus as regards policyholders			133,025,705	
Total liabilities, surplus and other funds			$ 495,115,962	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$ 205,890,973
Deductions:		
Losses incurred	$ 115,793,973	
Loss expenses incurred	25,718,003	
Other underwriting expenses incurred	62,836,767	
Aggregate write-ins for underwriting deduction	(12,439)	
Total underwriting deductions		204,336,304
Net underwriting gain		1,554,669
Investment Income		
Net investment income earned	18,080,410	
Net realized capital gains	6,754,533	
Net investment gain		24,834,943
Other Income		
Finance and service charges not included in premiums	187,506	
Total other income		187,506
Net income before federal income taxes		26,577,118
Federal income taxes incurred		(8,847,825)
Net income		$ 17,729,293

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$ 109,043,243
Net income	$ 17,729,293	
Net unrealized capital gains	2,526,278	
Change in net deferred income tax	1,482,144	
Change in nonadmitted assets	702,826	
Change in provision for reinsurance	1,541,921	
Change in surplus as regards policyholders		23,982,462
Surplus as regards policyholders, December 31, 2004		$ 133,025,705

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2001, per Examination			$ 91,497,160
Net income	$ 26,317,703	$	
Net unrealized capital gains	11,407,706		
Change in net deferred income taxes	6,501,441		
Change in nonadmitted assets	3,001,302		
Change in provision for reinsurance		224,607	
Dividends to stockholders		5,475,000	
Totals	$ 47,228,152	$ 5,699,607	
Net increase in surplus as regards policyholders			41,528,545
Surplus as regards policyholders, December 31, 2004, per Examination			$133,025,705

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2004 loss and loss adjustment expense reserves were evaluated by a Casualty Actuary from the California Department of Insurance. Based on the analysis performed, the Company's reserves for losses and loss adjustment expenses were deemed reasonable.

The Company's independent auditor's report as of December 31, 2004 states that the Company's loss and loss adjustment expense reserves may be overstated. The independent auditor's report indicated that the Company's carried reserves are 7% higher than the independent actuary's highest estimate. However, the Company's independent actuary certified that the booked reserves are within the reasonable range of estimates. It is recommended that the Company comply with Statements of Statutory Accounting Principles (SSAP) No. 55 for future Annual Statements, which requires, in part, that companies accrue reserves at the midpoint of a range of reasonably possible estimates.

(2) Taxes, Licenses and Fees

California Insurance Code (CIC) Sections 1872.8(a), 1872.81(a) and 1874.8(a) state, in part, that each insurer doing business in the State of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. During the course of this examination, it was noted that the Company inadvertently failed to implement the method of billing adopted in 2002. The Company re-filed and paid the corrected amount due of $166,584 to the California Department of Insurance (CDI) in June 2005. The total amount due of $166,584 is summarized by quarter as follows:

Quarter	**Original Payment**	**Corrected Payment**	**Amount Due**
1/1/02 – 3/31/02	$16,888.05	$16,882.65	($5.40)
4/1/02 – 6/30/02	$ 3,003.75	$18,984.60	$15,980.85
7/1/02 – 9/30/02	$ 3,605.40	$19,682.55	$16,077.15
Quarter	**Original Payment**	**Corrected Payment**	**Amount Due**

10/1/02 – 12/31/02	$ 3,099.60	$19,696.50	$16,596.90
1/1/03 – 3/31/03	$18,432.00	$20,384.55	$ 1,952.55
4/1/03 – 6/30/03	$2,500.20	$21,206.70	$18,379.80
7/1/03 – 9/30/03	$2,846.25	$21,533.85	$18,360.45
10/1/03 – 12/31/03	$2,823.30	$23,035.05	$18,710.55
1/1/04 – 3/31/04	$23,278.05	$23,035.05	($243.00)
4/1/04 – 6/30/04	$2,629.35	$22,486.95	$19,857.60
7/1/04 – 9/30/04	$2,408.85	$22,413.15	$20,004.30
10/1/04 – 12/31/04	$2,511.90	$23,423.85	$20,911.95
Total	$84,026.70	$250,610.40	$166,583.70

Since the amount was deemed not material, no adjustment was made to the Company's financial statements. The Company stated that it has implemented procedures to assure future compliance with the requirement of CIC Sections 1872.8(a), 1872.81(a) and 1874.8(a).

(3) Aggregate Write-ins for Liabilities

On November 8, 1988, the California voters passed an initiative known as Proposition 103. The proposition provided, among other things, that rates on new and renewal policies issued during the period of November 8, 1988, through November 7, 1989, be reduced to a level 20% below those in effect on November 8, 1987. On May 4, 1989, the California Supreme Court substantially upheld the provision of Proposition 103. The court's decision permits an exemption from the rate rollback if an insurance company can demonstrate that its rates are justified and that the rollback would prevent the company from earning a fair rate of return.

In August 1991, the CDI issued regulations prescribing a method for computing Proposition 103 mandated rate rollbacks on premiums written for the period November 8, 1988 through November 7, 1989. Based on these regulations, the Company received a rollback calculation and filed for an exemption from the 20% rate rollback requirement. The California Insurance Commissioner denied the Company's request for an exemption and ordered a $21,572,137 rollback plus 10% simple interest accruing from May 8, 1989. The Company believes that it has no rollback liability and is currently challenging the Commissioner's denial.

Pursuant to an agreement with the CDI, the Company agreed to establish a liability of $28 million ($42.4 million less federal income tax) and pledge $42.4 million of its assets in lieu of providing an appeal bond until a final decision is made.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Losses and Loss Adjustment Expenses – (Page 11): It is recommended that the Company comply with Statements of Statutory Accounting Principles (SSAP) No. 55 for future Annual Statements, which requires, in part, that companies accrue reserves at the midpoint of a range of reasonably possible estimates.

Previous Report of Examination

Accounts and Records (Page 10): It was recommended that the Company review its accounting procedures to insure that all amounts included in the general ledger and Annual Statement are clearly supportable and provide adequate audit trails. The Company complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/
Duane Armstrong, CFE
Examiner-In-Charge
Senior Insurance Examiner Supervisor
Department of Insurance
State of California